

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-13 H-01 L-03 PRS-01
PA-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15
STR-05 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
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P 180101Z OCT 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 6659
INFO AMEMBASSY SEOUL PRIORITY

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C O R R E C T E D C O P Y (TEXT)

USADB

FOR NAC AGENCIES

E.O. 11652: NA
TAGS: EAID, EFIN, KS
SUBJECT: ROAD IMPROVEMENT PROJECT (KOREA)

SUMMARY: ADB MANAGEMENT PROPOSES \$41.5 MILLION EQUIVALENT
LOAN FROM ORDINARY CAPITAL (OC) RESOURCES TO THE REPUBLIC
OF KOREA TO FINANCE FOREX COSTS OF ROAD IMPROVEMENT PROJECT
IN SOUTHERN PORTION OF COUNTRY. PROJECT IS INTEGRAL PART
OF GOVERNMENT'S BASIC ROAD IMPROVEMENT PROGRAM WHICH IS
INTENDED TO ACCOMMODATE PROJECTED HEAVY ROAD DEMAND.
PROJECT IS ADEQUATELY DESIGNED AND PROVIDES SUBSTANTIAL
ECONOMIC BENEFIT TO REGION. USADB THEREFORE RECOMMENDS
FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. 4-97-77 WITH ATTACHMENTS DESCRIBING PRO-
POSED LOAN POUCHED ADDRESSEES OCTOBER 3. BOARD
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CONSIDERATION SCHEDULED FOR OCTOBER 31.

2. ADB MANAGEMENT PROPOSING \$41.5 MILLION EQUIVALENT
LOAN FROM ORDINARY CAPITAL RESOURCES TO REPUBLIC OF
KOREA FOR IMPROVEMENT OF 17 SECTIONS OF NATIONAL HIGHWAY
AND ONE PROVINCIAL ROAD SECTION. PROCEEDS WILL FINANCE
FOREX COSTS: 1) CIVIL WORKS, 2) CONSULTANT'S

SERVICES, AND 3) PHYSICAL CONTINGENCIES AND PRICE ESCALATION. PROPOSED TERMS ARE 23 YEARS AMORTIZATION INCLUDING THREE YEARS GRACE PERIOD AT 8.3 PERCENT INTEREST. REPUBLIC OF KOREA TO BE BORROWER AND MINISTRY OF CONSTRUCTION (MOC) TO BE EXECUTING AGENCY.

3. DEMAND FOR DOMESTIC TRANSPORT HAS ARISEN WITH GROWTH OF NATIONAL ECONOMY. PUBLIC TRANSPORT IN TERMS OF PASSENGER-KILOMETERS AND FREIGHT TON-KILOMETERS FOR ALL MODES INCREASED AT AVERAGE ANNUAL RATE OF ABOUT 12 PERCENT AND 4.5 PERCENT RESPECTIVELY, DURING PERIOD 1971-1976. TOTAL PUBLIC PASSENGER TRAFFIC ROSE FROM 32.2 BILLION PASSENGER-KM IN 1971 TO 56.9 BILLION PASSENGER-KM IN 1976. OVER 73 PERCENT OF 1976 PASSENGER TRAFFIC WAS CARRIED BY ROAD TRANSPORT AND 25 PERCENT BY RAILWAYS. FREIGHT TRAFFIC BY PUBLIC CARRIERS DURING SAME PERIOD INCREASED FROM 15.8 BILLION TON-KM TO 19.6 BILLION TON-KM. OF THE LATTER VOLUME, PUBLIC CARRIER TRUCKS ACCOUNTED FOR ABOUT 22 PERCENT, COASTAL SHIPPING FOR 27 PERCENT AND RAILWAYS FOR 51 PERCENT. HOWEVER, THESE FIGURES UNDERSTATE THE PROPORTION OF ROAD TRANSPORT IN THAT THEY DO NOT INCLUDE TRAFFIC HANDLED BY PRIVATE CARRIERS.

4. HIGHWAY TRANSPORT HAS EXPERIENCED RAPID GROWTH DURING PAST DECADE. DURING 1967-1976, MOTOR LIMITED OFFICIAL USE

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VEHICLE FLEET GREW FROM ABOUT 60,700 TO 226,300 VEHICLES, AN AVERAGE INCREASE OF ABOUT 15.8 PERCENT PER ANNUM. ANNUAL GROWTH RATE DURING 1967-1976 PERIOD AVERAGED AROUND 17 PERCENT FOR EACH OF MAJOR VEHICLE CATEGORIES OF TRUCKS, CARS/TAXIS AND MOTORCYCLES, WHILE BUSES INCREASED BY 8.5 PERCENT PER ANNUM. IN 1976 KOREA'S MOTOR VEHICLE FLEET INCLUDED 96,000 CARS AND TAXIS AND 94,000 TRUCKS WHICH TOGETHER COMPRISE 84 PERCENT OF TOTAL. VEHICLE OWNERSHIP IN KOREA WITH ONLY ONE VEHICLE PER 158 INHABITANTS IS STILL VERY LOW AND FLEET COMPOSITION IS COMMERCIALY ORIENTED.

5. HIGHWAY'S SHARE OF TOTAL TRAFFIC BY ALL MODES

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INFO OCT-01 EA-10 ISO-00 IO-13 H-01 L-03 PA-01 PRS-01
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TO SECSTATE WASHDC PRIORITY 6660
INFO AMEMBASSY SEOUL PRIORITY

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FOR NAC AGENCIES

INCREASED DURING PAST DECADE. FOR PASSENGER TRAFFIC (PASSENGER-KM) IT ROSE FROM 54 PERCENT IN 1967 TO 73 PERCENT IN 1976, FOR FREIGHT (TON-KM), IT INCREASED EIGHT PERCENT TO ABOUT 23 PERCENT DURING SAME PERIOD. ANNUAL GROWTH RATE FOR HIGHWAY PASSENGER TRAFFIC DURING THE LAST FIVE YEARS (1971-1976) AVERAGE 12.8 PERCENT AND IS EXPECTED TO CONTINUE AT A SLIGHTLY LOWER RATE OF 11.4 PERCENT DURING NEXT FIVE YEARS. HIGHWAY FREIGHT TRAFFIC (TON-KM) DURING SAME PERIOD GREW AT 5.6 PERCENT PER ANNUM WHICH WAS ABOVE AVERAGE (4.5 PERCENT) FOR ALL MODES. UNDER FOURTH FIVE-YEAR PLAN (1977-1981) IT IS PROJECTED INCREASE AT A RATE OF 12 PERCENT PER ANNUM, COMPARED WITH ESTIMATED RAILWAY TRAFFIC GROWTH OF SIX PERCENT PER ANNUM.

6. BY 1967 ONLY SIX PERCENT OF 34,800 KM ROAD NETWORK AND 17 PERCENT OF 8,200 KM NATIONAL HIGHWAY NETWORK HAD BEEN PAVED. FOLLOWING COMPLETION OF MORE IMPORTANT
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LINKS IN EXPRESSWAY NETWORK (STARTED IN 1967) THE ROK SHIFTED TO ACCELERATED IMPROVEMENT OF SECTIONS OF ROAD NETWORK IN LINE WITH GOVT'S PROGRAM FOR INCREASE ASSISTANCE TO RURAL COMMUNITIES AND ESTABLISHMENT OF A MORE REGULARLY BALANCED INDUSTRIALIZATION PROGRAM. HIGHWAY IMPROVEMENT PROGRESS WAS FACILITATED BY EXISTENCE OF REASONABLY WELL-ESTABLISHED FRAMEWORK OF ANTIONAL AND PROVINCIAL ROADS WHICH PROVIDED

ACCESS TO VARIOUS REGIONS OF COUNTRY. THESE ROADS, THOUGH NARROW, UNSURFACED AND IN POOR CONDITION, WERE CAPABLE OF BEING IMPROVED ALONG EXISTING ALIGNMENTS WITH MINIMAL INVESTMENTS.

7. PROPOSED PROJECT IS SOCOND PHASE OF THREE PHASE PROGRAM. FIRST PHASE COVERED IMPROVEMENT OF 12 ROAD SECTIONS TOTTALLING 410 KM. ADB ASSISTED FIRST PHASE WITH TA LOAN OF \$450,000 AND GRANT OF \$100,000 UNDERTAKEN IN 1974/75. IN AUGUST 1975, BANK APPROVED \$43.0 MILLION LOAN FOR FIRST PHASE.

8. EIGHTEEN ROAD SECTIONS PROPOSED FOR IMPROVEMENT ARE LOCATED IN SOUTHERN PORTION OF COUNTRY; EIGHT IN CENTRAL INLAND AREA, SIX ON SOUTHERN COAST, AND TWO EACH ALONG SOUTHEASTERN AND SOUTHWESTERN COASTLINES. SOUTHERN REGION OF COUNTRY PREDOMINANTLY HILLY AND ABOUT 70 PERCENT OF LAND IS STEEPLY SLOPING. SIXTEEN OF PROJECT ROAD SECTIONS TOTTALLING 488 KM ARE LOCATED IN THREE PROVINCES OF JEONRA-BUG DO, JEONRA-NAM DO AND GYEONGSARG-NAM DO WHICH TOGETHER COMPRISE 40 PERCENT OF COUNTRY'S LAND AREA WITH ABOUT ONE-THIRD (11 MILLION) PROVINCE AREA WILL BE UNDER IMMEDIATE INFLUENCE OF RPROJECT RROADS. MAIN ECONOMIC ACTIVITIES OF AFFECTED PROVINCE (WHICH HAVE INCOMES BELOW NATIONAL AVERAGE) LIMITED OFFICIAL USE

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RELATE TO AGRICULTURE, FORESTRY AND FISHING AND SOME MENIAL PRODUCTION. THERE ARE ALSO RAPIDLY DEVELOPING INDUSTRIAL COMPLEXES ALONG SOUTHEASTERN COASTLINE.

9. PROPOSED PROJECT INVOLVES; 1) IMPROVEMENT OF 17 SECTIONS OF NATIONAL HIGHWAY NETWORKS AND ONE PROVINCIAL ROAD SECTION TOTTALLING 520.1 KM MAINLY ON PRESENT ALLIGNMENT OF TWO-LANE PAVED STANDARD, AND CONSTRUCTION OF APPROXIMATELY 2,200 METERS OF REINFORCED CONCRETE BRIDGES TO REPLACE EXISTING SUBSTANDARD BRIDGES ON THESE ROAD SECTIONS, 2) PROVISION OF CONSULTANT'S SERVICES TO ASSIST MOC(THE EXECUTING AGENCY) IN SUPERVISION OF CONSTRUCTION, AND 3) PROVISION OF CONSULTANT'S SERVICES TO REVIEW AND UPDATE EARLIER STUDY FOR PHASE III OF ROAD IMPROVEMENT PROJECT.

10. TOTAL COST OF PROJECT IS ESTIMATED AT \$102.0 MILLION EQUIVALENT. PROPOSED \$41.5 MILLION LOAN WOULD COVER FOREX COSTS OF: 1) CIVIL WORKS \$33.1 MILLION, 2) \$0.65 MILLION FOR CONSULTANTS SERVICES, 3) \$3.31 MILLION FOR PHYSICAL CONTINGENCIES, AND 4) \$4.44 MILLION FOR PRICE ESCALATION. THE FOREX COST OF THE CIVIL WORKS INCLUDES DEPRECIATION OF IMPORTED CON-

STRUCTION EQUIPMENT CHARGEABLE TO PROJECT AND
FOEX COST COMPONENT OF LOCALLY PRODUCED EQUIPMENT AND

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MATERIALS. ABOUT ONE-HALF OF FOREX COSTS ARE CONSIDERED
DIRECT (E.G., DEPRECIATION) THE REST INDIRECT (E.G.,
IMPORTED COMPONENTS OF ROAD MATERIALS). CONSULTANT'S
SERVICES ARE DIVIDED BETWEEN CONSTRUCTION SUPERVISION
(\$0.6 MILLION) AND 2) UPDATING AND FEASIBILITY STUDY
FOR PHASE III (0.05 MILLION). GOVT WILL PROVIDE \$60.5
MILLION FOR LOCAL CURRENCY COSTS REQUIRED TO IMPLEMENT
PROJECT.

11. GOVT HAS REQUESTED THAT CIVIL WORKS COVERED BE CARRIED
OUT BY LOCAL CONTRACTORS WHO WOULD BE ENGAGED THROUGH
PROCEDURES ACCEPTABLE TO BANK. BANK FEELS THAT THERE IS NOW
AN ESTABLISHED AND EFFICIENT DOMESTIC ROAD CONSTRUCTION
INDUSTRY IN KOREA. GIVEN PAST EXPERIENCE WITH IBRD ROAD
LOANS BETWEEN 1971-1976 WHERE NO FOREIGN CONTRACTORS BID
ON MAJOR ROAD WORKS BANK FEELS USE OF LOCAL CONTRACTORS
IS IN LINE WITH BANK'S PROCUREMENT POLICY. CONTRACTS
WOULD BE AWARDED ON A UNIT PRICE BASIS AND CONTRACTORS
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WOULD PROVIDE THE NECESSARY EQUIPMENT AND MATERIALS REQUIRED FOR THE EXECUTION OF CIVIL WORKS.

12. A FOREIGN CONSULTING FIRM, IN ASSOCIATION WITH LOCAL CONSULTANTS WOULD SUPERVISE PROJECT. AGREEMENT WAS REACHED BETWEEN GOVT AND BANK THAT CONSULTANTS' SERVICES WOULD BE PROVIDED BY FOUR EXPATRIATE AND 12 LOCAL ENGINEERS. FOREIGN FIRM WILL BE REQUIRED TO RECRUIT LOCAL ENGINEERS THROUGH LOCAL CONSULTING FIRM OR FIRMS OF THEIR CHOICE. GOVT ASSURED BANK THAT SUITABLY QUALIFIED AND EXPERIENCED CONSULTANTS WILL BE ENGAGED IN ACCORDANCE WITH THE BANK'S GUIDELINES ON USES OF CONSULTANTS.

13. IN VIEW OF SUBSTANTIAL TIME INTERVAL BETWEEN COMPLETION OF 1975 STUDY AND EXPECTED IMPLEMENTATION OF PHASE III IN 1980/81, IT WAS FELT BY BANK THAT ROAD AND BRIDGE UPDATE FOR PHASE III WOULD BE IN ORDER. TO CARRY OUT UPDATE GOVT INTENDS TO RETAIN SERVICES OF WILBUR SMITH AND ASSOCIATES (WSA) ASSISTED BY LOCAL CONSULTANTS. WSA WAS SELECTED BECAUSE OF EARLIER INVOLVEMENT WITH ORIGINAL STUDY. GOVT CONSIDERED THAT IT WOULD BE ADVANTAGEOUS TO RETAIN SERVICES OF SAME FIRM SO THAT IT COULD ASSUME FULL RESPONSIBILITY FOR DATA AND CONCLUSIONS OF ORIGINAL STUDY. BANK THEREFORE SUPPORTS GOVT PROPOSAL OF ENTERING INTO DIRECT NEGOTIATION WITH WSA.

14. EXECUTING AGENCY FOR PROJECT WOULD BE MOC THROUGH THE BUREAU OF PUBLIC ROADS (BPR) AND TERRITORIAL CONSTRUCTION AND MANAGEMENT OFFICES (TCMOS). BPR WILL BE RESPONSIBLE FOR OVERALL PROJECT IMPLEMENTATION WHILE FIELD SUPERVISION OF CIVIL WORKS CONTRACTS WOULD BE UNDERTAKEN BY TCMOS. MCO ENGINEERING STAFF IS WELL QUALIFIED AND HAS ALSO ACQUIRED EXPERIENCE IN PROJECT EXECUTION DURING IMPLEMENTATION OF A NUMBER OF BANK AND IBRD-FINANCED HIGHWAY PROJECTS DURING LIMITED OFFICIAL USE

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LAST TEN YEARS. IN VIEW OF MOC'S SUCCESSFUL IMPLEMENTATION OF A NUMBER OF MAJOR ROAD PROJECTS, INCLUDING THOSE FINANCED BY BANK, THE BANK CONSIDERS MOC FULLY CAPABLE OF EXECUTING PROPOSED PROJECT SATISFACTORILY.

15. PROPOSED PROJECT IS IN LINE WITH GOVT LONG-TERM ROAD IMPROVEMENT AIMED AT PROVIDING PAVED ROADS BETWEEN ALL IMPORTANT CITIES, INDUSTRIAL CENTERS AND AGRICULTURAL AREAS OF THE COUNTRY. PROJECT ROADS WHEN IMPROVED WILL GREATLY REDUCE VEHICLE OPERATING COSTS AND THEREBY SUPPORT VARIOUS AGRICULTURAL, INDUSTRIAL AND TOURIST DEVELOPMENT PROGRAMS ENVISAGED UNDER THE FOURTH FIVE-YEAR PLAN. ROAD IMPROVEMENTS

UNDER PROJECT WILL LARGELY BENEFIT RURAL COMMUNITIES IN REGION WHERE PER CAPITA INCOME WAS AROUND \$400 COMPARED WITH NATIONAL AVERAGE OF \$532 IN 1975. AVERAGE CULTIVATED AREA PER FARM HOUSEHOLD WAS ABOUT 0.94 HECTARES IN 1975.

16. ECONOMIC RATE OF RETURN FOR PROJECT, AS A WHOLE ESTIMATED AT 19.6 PERCENT AND RELATIVELY INSENSITIVE TO CHANGES IN COSTS AND BENEFITS. VEHICLE OPERATING COST SAVING CONSTITUTES 98 PERCENT OF QUATIFIABLE BENEFITS. OTHER LESS QUANTIFIABLE BENEFITS INCLUDE: 1) BETTER ACCESSIBILITY AMONG VARIOUS RURAL AND SEMI-URBAN COMMUNITIES TOTALLING 1.25 MILLION INHABITANTS IN PROJECT AREA AND 2) REDUCION OF SERIOUS DUST NUISANCE RESULTING FROM EXISTING GRAVEL ROADS. THE PROJECT APPEARS TO BE TECHNICALLY SOUND AND ECONOMICALLY VIABLE, USADB THEREFORE RECOMMENDS FAVORABLE NAC ACTION.

17. REQUEST SEOUL'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
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Message Attributes

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Decaption Note:
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